

Washington State Auditor's Office

Audit Report

Audit Services

Report No. 57728

VASHON ISLAND SCHOOL DISTRICT NO. 402

King County, Washington

September 1, 1993 Through August 31, 1995

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VASHON ISLAND SCHOOL DISTRICT No. 402
King County, Washington
September 1, 1993 Through August 31, 1995

**Independent Auditor's Report On Compliance With Laws And Regulations
At The Financial Statement Level (Plus Additional State Compliance
Requirements Per RCW 43.09.260)**

Board of Directors
Vashon Island School District No. 402
Vashon, Washington

We have audited the general-purpose financial statements, as listed in the table of contents, of Vashon Island School District No. 402, King County, Washington, as of and for the fiscal years ended August 31, 1993 and 1994, and have issued our report thereon dated August 9, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to Vashon Island School District No. 402 is the responsibility of the district's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the district's compliance with certain provisions of laws, regulations, contracts, and grants.

We also performed additional tests of compliance with state laws and regulations as required by *Revised Code of Washington* (RCW) 43.09.260. This statute requires the State Auditor to inquire as to whether the district complied with the laws and the *Constitution of the State of Washington*, its own ordinances and orders, and the requirements of the State Auditor's Office. Our responsibility is to examine, on a test basis, evidence about the district's compliance with those requirements and to make a reasonable effort to identify any instances of misfeasance, malfeasance, or nonfeasance in office on the part of any public officer or employee and to report any such instance to the management of the district and to the Attorney General. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with these provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*.

This report is intended for the information of management and the board of directors and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

August 9, 1996

VASHON ISLAND SCHOOL DISTRICT No. 402
King County, Washington
September 1, 1993 Through August 31, 1995

Independent Auditor's Report On Internal Control Structure
At The Financial Statement Level

Board of Directors
Vashon Island School District No. 402
Vashon, Washington

We have audited the general-purpose financial statements of Vashon Island School District No. 402, King County, Washington, as of and for the fiscal years ended August 31, 1995 and 1994, and have issued our report thereon dated August 9, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the district is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of the district, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The matters involving the internal control structure and its operation that we consider to be reportable conditions are included in the Schedule of Findings accompanying this report.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described in the Schedule of Findings is a material weakness.

This report is intended for the information of management and the board of directors and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

August 9, 1996

VASHON ISLAND SCHOOL DISTRICT No. 402
King County, Washington
September 1, 1993 Through August 31, 1995

Schedule Of Findings

1. District Officials Should Improve Controls Over The Journal Voucher Process

Our review of the district's journal voucher process disclosed internal control weaknesses. The district uses journal vouchers to post transactions relating to accrual of federal revenues, fiscal year-end receivables, cash held at King County, and correcting entries.

The following weaknesses were noted:

- a. Supporting documentation was seldom attached to vouchers. Substantial effort was required to obtain the support.
- b. Supervisory approval of the voucher was seldom evident.
- c. A consecutively numbered journal voucher control log was not maintained.
- d. A clear and distinct separation of duties was not maintained between persons preparing journal vouchers and persons with approval responsibility.

The variety of control exceptions and the pattern of errors indicated a shortage of welltrained staff and inadequate management oversight.

The weak controls over the journal voucher process permitted incorrect, improper, and mistimed entries to the district's accounting records and financial statements. The financial statements required extensive contracted assistance to correct. This condition increases the risk of errors going undetected as well as risk of loss of district assets.

We recommend district officials implement internal controls over the journal voucher process, requiring:

- a. Assignment of sequential numbers to each journal voucher prepared and maintenance of a log of the numbers assigned.
- b. The preparer sign and date the journal voucher and attach the supporting documentation.
- c. Someone other than the preparer approve the journal voucher, sign the voucher, and clearly indicate the date approved.
- d. The person responsible for data entry of the journal voucher sign and clearly indicate the date entered.

Auditee's Response

The District agrees completely with this finding. We fully recognize the importance of correct, adequately documented, appropriately timed, and properly controlled journal vouchers. However, prior to the audit conducted by your office, the District recognized every one of the control weaknesses you identified and implemented each of the specific recommendations outlined in your draft findings. In June of 1996, the District:

- *Began maintaining a journal voucher log with sequential document numbering;*
- *Implemented procedures by which the individual preparing journal vouchers signs and dates the document and includes supporting documentation on each journal voucher;*
- *Established an approval process in which an individual other than the document originator approves documents prior to data entry; and,*
- *Instituted a process by which the employee responsible for data entry signs the document and indicates the data entry date.*

2. District Officials Need To Strengthen Controls Over Fixed Assets

Our review of the district's fixed assets disclosed the internal control weaknesses cited in our previous report had not been resolved:

- a. A centralized general ledger fixed asset accounting control system, including subsidiary fixed asset records, has been established but is not up-to-date.
- b. Physical inventory procedures do not provide for a reconciliation between the physical inventory and the general fixed asset accounting control records.
- c. Procedures are lacking to ensure purchase and asset retirements are accounted for in the district's financial records.
- d. The identification of assets purchased with federal funds is not readily recognized in the district's fixed asset accounting records. Federal grant programs require long-range accountability.
- e. Furniture and equipment are not identified with district tags or labels for proper accountability.

As a result, district officials do not have adequate information to ensure proper accountability of fixed assets. The district has not allocated sufficient resources to establish and maintain an adequate fixed asset control system.

While the *Accounting Manual for Public School Districts in the State of Washington* states the use of the general ledger fixed asset account group is optional, the district is still responsible for implementing controls to properly account for asset additions and retirements.

We recommend district officials improve internal controls over fixed assets by:

- a. Establishing and maintaining comprehensive general fixed asset accounting control records. Such records should document asset locations, location transfer, additions, and retirements as they occur. Supporting documentation for all changes should be retained.

- b. Performing a comprehensive periodic physical inventory. The results of the physical inventory should be reconciled with the general fixed asset control records, with the difference resolved and recorded.
- c. Identifying the district furniture and equipment with numbered property tags. The numbers should be recorded in the property records.
- d. Identifying in the property records federal funding sources as required by federal agency agreements.

Auditee's Response

Sound fixed asset accounting and the appropriate control of fixed assets is one of the most persistent fiscal challenges to school districts. The District believes your findings are an accurate portrayal of the District's inability to date to meet this challenge. To enhance our response to this challenge, the District intends to first review, update, and improve its policy and procedural guidelines regarding fixed assets. Second, the District proposes to develop and distribute new, user-friendly procedures regarding fixed assets to all program managers and school principals. Third, the District plans to develop and provide staff training regarding fixed asset accounting and controls. Finally, the District proposes to develop and implement a process by which compliance with the procedures is adequately monitored. Through the above approach, I believe the District will fully address your discoveries associated with physical inventories; federal funding requirements; asset acquisition, transfer, retirement, and disposal; tracking of fixed assets through tags or labels; and a centralized accounting control system.

3. District Officials Need To Establish Controls Over Imprest Funds

In our review of imprest checking funds maintained by the district, we noted several accounts exceeded the board approved balances. In one case, the balance was \$1,400 in excess of the board approved amount.

We also noted reconciliations between the bank statements and the board approved balances rarely occurred. At one school, officials did not maintain a check register balance.

It is general business practice to perform monthly reconciliations of all bank accounts. School officials did not appear to have received the training necessary to perform the required reconciliations.

Without monitoring, controlling, and reconciling, the imprest funds could be used for improper purposes, or errors could occur and pass undetected resulting in a loss of public funds.

We recommend district officials monitor, control, and reconcile monthly all imprest funds.

Auditee's Response

The District concurs with this finding. We acknowledge the obligation to appropriately administer imprest funds in order to safeguard against both improper expenditures and the possible loss of public funds. The District has already begun to outline a management response including:

- *A review of Board approved balances;*
- *Procedures for monthly reconciliations between bank statements, check register, and Board approved levels;*

- *Staff development presentations on the legal obligations and restrictions associated with imprest funds;*
- *Training of District staff on generally accepted reconciliation procedures; and,*
- *An internal review process of compliance at each school.*

Auditor's Concluding Remarks

Based upon the response, the issues delineated in our report appear to have been addressed. We will review these areas again in our subsequent audit.

We would like to express our appreciation to staff for their assistance and cooperation throughout the audit process.

VASHON ISLAND SCHOOL DISTRICT No. 402
King County, Washington
September 1, 1993 Through August 31, 1995

Independent Auditor's Report On Financial Statements

Board of Directors
Vashon Island School District No. 402
Vashon, Washington

We have audited the accompanying general-purpose financial statements of Vashon Island School District No. 402, King County, Washington, as of and for the fiscal years ended August 31, 1995 and 1994. These financial statements are the responsibility of the district's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial statements referred to above do not include the general fixed asset account group, which should be included in order to conform with generally accepted accounting principles. The amount that should be recorded in the general fixed assets account group is not known.

In our opinion, except for the effect on the financial statements of the omission described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Vashon Island School District No. 402 as of August 31, 1995 and 1994, and the results of operations for the fiscal years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 9, 1996, on our consideration of the district's internal control structure and a report dated August 9, 1996, on its compliance with laws and regulations.

Brian Sonntag
State Auditor

August 9, 1996

VASHON ISLAND SCHOOL DISTRICT No. 402
King County, Washington
September 1, 1993 Through August 31, 1995

Independent Auditor's Report On Supplementary Information
Schedule Of Federal Financial Assistance

Board of Directors
Vashon Island School District No. 402
Vashon, Washington

We have audited the general-purpose financial statements of Vashon Island School District No. 402, King County, Washington, as of and for the fiscal years ended August 31, 1995 and 1994, and have issued our report thereon dated August 9, 1996. These financial statements are the responsibility of the district's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the financial statements of Vashon Island School District No. 402 taken as a whole. The accompanying Schedules of Federal Financial Assistance are presented for purposes of additional analysis and are not a required part of the financial statements. The information in the schedules has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

Brian Sonntag
State Auditor

August 9, 1996

VASHON ISLAND SCHOOL DISTRICT No. 402
King County, Washington
September 1, 1993 Through August 31, 1995

**Independent Auditor's Report On Compliance With The General Requirements
Applicable To Federal Financial Assistance Programs**

Board of Directors
Vashon Island School District No. 402
Vashon, Washington

We have audited the general-purpose financial statements of Vashon Island School District No. 402, King County, Washington, as of and for the fiscal years ended August 31, 1995 and 1994, and have issued our report thereon dated August 9, 1996.

We have applied procedures to test the district's compliance with the following requirements applicable to its federal financial assistance programs, which are identified in the Schedules of Federal Financial Assistance, for the fiscal years ended August 31, 1995 and 1994:

- Political activity
- Civil rights
- Cash management
- Federal financial reports
- Allowable costs/cost principles
- Drug-Free Workplace Act
- Administrative requirements, including subrecipient monitoring

The following requirements were determined to be not applicable to its federal financial assistance programs

- Davis-Bacon Act
- Relocation assistance and real property acquisition

Our procedures were limited to the applicable procedures described in the Office of Management and Budget's (OMB) *Compliance Supplement for Single Audits of State and Local Governments* or alternative procedures. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the district's compliance with the requirements listed in the preceding paragraph. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the second paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that the district had not complied, in all material respects, with those requirements.

This report is intended for the information of management and the board of directors and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

August 9, 1996

VASHON ISLAND SCHOOL DISTRICT No. 402
King County, Washington
September 1, 1993 Through August 31, 1995

Independent Auditor's Report On Compliance With Specific Requirements
Applicable To Nonmajor Federal Financial Assistance Program Transactions

Board of Directors
Vashon Island School District No. 402
Vashon, Washington

We have audited the general-purpose financial statements of Vashon Island School District No. 402, King County, Washington, as of and for the fiscal years ended August 31, 1995 and 1994, and have issued our report thereon dated August 9, 1996.

In connection with our audit of the financial statements of the district and with our consideration of the district's control structure used to administer its federal financial assistance programs, as required by OMB Circular A-128, *Audits of State and Local Governments*, we selected certain transactions applicable to its nonmajor federal financial assistance programs for the fiscal years ended August 31, 1995 and 1994. As required by OMB Circular A-128, we have performed auditing procedures to test compliance with the requirements governing allowability of the program expenditures and eligibility of the individuals or groups to whom the district provides federal financial assistance that are applicable to those transactions. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the district's compliance with these requirements. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the preceding paragraph. With respect to the items not tested, nothing came to our attention that caused us to believe that Vashon Island School District No. 402 had not complied, in all material respects, with those requirements.

This report is intended for the information of management and the board of directors and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

August 9, 1996

VASHON ISLAND SCHOOL DISTRICT No. 402
King County, Washington
September 1, 1993 Through August 31, 1995

**Independent Auditor's Report On Internal Control Structure Used In
Administering Federal Financial Assistance Programs**

Board of Directors
Vashon Island School District No. 402
Vashon, Washington

We have audited the general-purpose financial statements of Vashon Island School District No. 402, King County, Washington, as of and for the fiscal years ended August 31, 1995 and 1994, and have issued our report thereon dated August 9, 1996.

We conducted our audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit, we considered the district's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and to report on the internal control structure in accordance with OMB Circular A-128. This report addresses our consideration of internal control structure policies and procedures relevant to compliance with requirements applicable to federal financial assistance programs. We have addressed internal control structure policies and procedures relevant to our audit of the financial statements in a separate report dated August 9, 1996.

The management of the district is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

- Assets are safeguarded against loss from unauthorized use or disposition.
- Transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.
- Federal financial assistance programs are managed in compliance with applicable laws and regulations.

Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures used in administering federal financial assistance programs in the following categories:

- **Accounting Controls**
 - Cash receipts
 - Payroll
 - General ledger
- **General Requirements**
 - Political activity
 - Civil rights
 - Cash management
 - Federal financial reports
 - Allowable costs/cost principles
 - Drug-Free Workplace Act
 - Administrative requirements, including subrecipient monitoring
- **Specific Requirements**
 - Types of services
 - Eligibility
 - Matching, level of effort, earmarking
 - Reporting
 - Special requirements
- **Claims For Advances And Reimbursements**
- **Amounts Claimed Or Used For Matching**

For all of the applicable internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

The following internal control structure categories were determined to be insignificant to federal financial assistance programs:

- **Accounting Controls**
 - Cash disbursements
 - Receivables
 - Accounts payable
 - Purchasing and receiving
 - Inventory control
 - Property, plant, and equipment
- **General Requirements**
 - Davis-Bacon Act
 - Relocation assistance and real property acquisition

During the fiscal years ended August 31, 1995 and 1994, the district had no major federal financial assistance programs and expended 62 percent, each year, of its total federal financial assistance under the following nonmajor federal financial assistance programs: National School Lunch (CFDA 10.555), Chapter 1 (CFDA 84.010), and Special Education - Grants to States (CFDA 84.027).

We performed tests of controls, as required by OMB Circular A-128, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements

governing claims for advances and reimbursements, and amounts claimed or used for matching that are applicable to the aforementioned nonmajor programs. Our procedures were less in scope than would be necessary to render an opinion on these internal control structures policies and procedures. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure policies and procedures used in administering federal financial assistance would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that noncompliance with laws and regulations that would be material to a federal financial assistance program may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses, as defined above.

This report is intended for the information of management and the board of directors and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

August 9, 1996

VASHON ISLAND SCHOOL DISTRICT No. 402
King County, Washington
September 1, 1993 Through August 31, 1995

Status Of Prior Findings

The finding contained in the prior audit report was resolved as follows:

1. District Officials Need To Strengthen Controls Over Fixed Assets

Resolution: We examined the system of controls over fixed assets in place as of July 1996. The district has made a significant improvement in this area but has not completed the implementation of its system. We are repeating the finding, taking into consideration the changes that have been made.